

MINUTES
North Dakota Public Employees Retirement System
August 31, 2000
Peace Garden Room
State Capitol
Bismarck, ND
8:00 a.m.

Members Present: Mr. Joseph Maichel, Chairman
Mr. Weldee Baetsch
Mr. David Gunkel
Mr. Ron Leingang
Mr. Howard Sage
Mr. Murray Sagsveen
Ms. Rosellen Sand

Others Present: Mr. Sparb Collins, Executive Director NDPERS
Ms. Jeanne Welder, NDPERS
Ms. Kathy Allen, NDPERS
Mr. Bryan Reinhardt, NDPERS
Ms. Sharon Schiermeister, NDPERS
Ms. Deb Knudson, NDPERS
Mr. Scott Miller, Attorney General's Office
Mr. Steve Cochrane, RIO
Mr. Tom Tupa, INDSEA
Mr. Howard Snortland, AFPE
Ms. Chris Runge, NDPEA AFT 4660
Ms. Nancy Kopp, ND Optometric Association
Mr. Gino Reina, Segal Advisors
Ms. Janine Weidemier, BCBSND
Mr. Chad Niles, BCBSND
Mr. Larry Brooks, BCBSND
Ms. Sue Tibiatowski, BCBSND
Mr. Rod St Aubyn, BCBSND
Mr. Mr. Joe Morrisette, Legislative Council
Mr. Rod Backman, OMB
Ms. Sheila Peterson, OMB
Mr. Mike Sandal, NDUS
Mr. Patrick Pechacek, Deloitte & Touche
Mr. Scott Lund, Deloitte & Touche
Mr. Tom Jones, Nationwide
Ms. Elizabeth Black, Nationwide

Chairman Maichel called the meeting to order at 8:05 a.m. The first item of business was the minutes of the July 27 board meeting. Chairman Maichel called for any comments or questions regarding the minutes.

MR. GUNKEL MOVED APPROVAL OF THE MINUTES AS SUBMITTED. MR. SAGE SECONDED THE MOTION.

AYES: Baetsch, Gunkel, Sage, Chairman Maichel
ABSENT: Sand, Sagsveen
NAYS: None

PASSED

GROUP INSURANCE

BCBS Renewal:

Mr. Pechacek and Mr. Lund reviewed steps taken to date regarding the group health insurance renewal process. A meeting was held on August 18 with representatives of BCBSND (BCBS), Deloitte, and PERS staff to compare the projected estimates prepared by Deloitte with the renewal estimates prepared by BCBSND. Mr. Collins noted there was a significant difference between the projected rates and the proposed renewal rates, therefore, Deloitte was asked to review this difference. Mr. Pechacek explained the difference related to the assumptions used by each entity to determine their rates. The rates developed by Deloitte were lower due to different assumptions regarding trend, use of interest credits and administrative expenses. Mr. Pechacek reviewed the process utilized by Deloitte to develop those rates. Deloitte's projected premium increase for the active and non-Medicare retirees was approximately 18.6%. He explained there was approximately a 2% differential in the trend rates used, which results in an around 6% premium differential. Another area of difference related to where the interest calculation is credited. As a point of reference, Mr. Collins explained that during the last renewal process, when the premiums came in higher than the funded amount, BCBSND agreed to lower their rates under the provision that they would no longer credit the interest back to the PERS account. Up until that time PERS received interest credit back to the account.

Discussion followed on what might be driving up the trend rates. Mr. Pechacek noted a heavy driver currently is prescription drugs, which has an average 18% trend nationwide. It is not anticipated that this situation will reverse itself in the near future. It was pointed out that the Board has taken steps to increase out-of-pocket sharing for prescriptions; and that this should help mitigate the situation. Mr. Pechacek noted those steps should help; however the underlying costs of drugs have increased by approximately 20%.

Mr. Chad Niles, Vice President of Marketing, Janine Leidiman, Vice President of Actuarial Services and Larry Brooks, Consulting Services addressed the Board to review BCBS' proposed renewal rates. Ms. Leidiman reviewed the assumptions and methods used in developing the proposed renewal rates. She agreed that the major difference between the two projections related to the trend assumptions used. Ms. Leidiman also conveyed that BCBS felt they would not be able to hold the discount currently being received from providers, into the 2001-2003 biennium. She noted the provider group has not had a fee schedule increase for the last seven years.

Chairman Maichel indicated that Mr. Collins had to leave briefly to give a presentation at another meeting. He informed board members that this item would, therefore, be tabled until Mr. Collins could rejoin the discussion.

The next item for consideration was IV-A.

DEFERRED COMP

Quarterly Reports:

Mr. Reina, from Segal Advisors, provided a detailed synopsis of the quarterly reports for the deferred compensation program and the 401(a) plan. Mr. Reina conveyed that the second quarter of 2000 was tough on the equity markets. Overall, the assets of the 401(a) plan decreased during the 3-month reporting period, mainly due to capital depreciation in the equity markets. He noted the following highlights of the 401(a) plan:

- The 401(a) plan's assets decreased during the reporting period.

- The majority of the plan's assets are invested in the Fidelity Growth Company, the Fidelity Managed Income, and the Fidelity Diversified International funds.
- The Fidelity Managed Income and Fidelity Growth Company received the majority of new contributions during this reporting period.
- The Fidelity Managed Income portfolio experienced the greatest outflow, while Fidelity Growth Company and Fidelity Diversified International funds received the greatest inflow of exchanges.

Mr. Reina also provided a detailed overview of the Deferred Compensation quarterly report for the Companion Plan. Following are some of the highlights:

- The Companion Plan's assets increased during the quarter.
- The majority of the plan's assets are invested in the VALIC Unallocated Fixed Account, the Vanguard Growth Index, the Deutsche Equity 500 Index Fund and the American Century Equity Growth.
- The majority of incoming funds during this reporting period were earmarked for the Vanguard Growth Index Fund, the Vanguard LifeStrategy Growth Fund and the Vanguard Lifestyle Moderate Growth Fund.
- The VALIC Unallocated Fixed Account and T. Rowe Price Small Cap Stock fund experienced the greatest outflow of exchanges during the quarter, while the Vanguard Growth Index and American Century International Growth Funds received the most inflow of exchanges.

These reports are on file at the NDPERS office, located at 400 E. Broadway, Suite 505, in Bismarck, ND.

Investment Options Study:

At a previous meeting, the Board initiated a study of the investment options under the Companion Plan to determine whether additional options should be provided. The Board assigned the study to the Investment Committee, a subcommittee of the Board. The Investment Committee met with Segal Advisors and PERS staff to review the existing plan. A summary of those discussions was included with the board materials. Segal's recommendation was to:

- Add a Lehman Aggregate bond index fund
- Add a large cap value equity index fund
- Add a large cap growth fund and a small cap growth fund
- Add a balanced fund that invests solely in large cap growth stocks
- Add a mid-cap equity fund if the desire is to provide further diversification in this area. Segal noted, however, that there was no pressing need for the Board to do so.

In addition, Mr. Cochrane, RIO, discussed with Callan Associates the issue of adding a high yield and an international bond category. Callan's conclusion was that a core plus fixed-income fund offers investors access to the added value of the high yield and international bond sectors with limited additional risk or cost than that of a core strategy. Mr. Reina noted that due to the expenses, he would concur with this analysis. He explained that an international bond fund or high yield bond funds are very risky on a stand-alone basis. However, as a small portion of a totally diversified fixed-income fund this option could be of

benefit to a participant. Discussion followed on the advantages and disadvantages of adding a bond category.

Mr. Cochrane explained that he felt the way Callan approached the question was to consider this option as an extension to the proposal to add a Lehman Aggregate bond index. Therefore, incorporating international fixed-income and high yield allows the investor to have exposure to those assets classes on a managed basis. In a core plus fixed-income portfolio, the manager has discretion to increase or decrease the exposure within the portfolio to those two higher return/higher risk bond classes. He noted that for each fund added the cost for the search would be approximately \$5000. It was clarified that this would apply to searches on actively managed funds, not to index funds.

MR. GUNKEL MOVED APPROVAL OF SEGAL'S RECOMMENDATION WITH THE ADDITION OF A LEHMAN AGGREGATE BOND INDEX FUND AND HIGH YIELD FUND. MR. SAGE SECONDED THE MOTION.

Clarification was requested on whether the motion included adding a mid-cap equity fund. Mr. Gunkel clarified that his motion did not include adding a mid-cap equity fund. Ms. Sand conveyed her concern that the Board is extending itself into a position where they may be continuously examining situations where it appears a better investment opportunity might available. She suggested the Board might need to consider establishing parameters for future considerations.

AYES: Gunkel, Leingang, Sage, Sand, Chairman Maichel
NAYS: Baetsch, Sagsveen

PASSED

Ms. Sand noted she understood the motion was to look into the matter at this time, not to hire a manager. It was clarified that the motion was to select a manager. Chairman Maichel asked whether Ms. Sand would like to reconsider her vote; she indicated she would. The final vote on the above motion was as follows:

AYES: Gunkel, Leingang, Sage, Chairman Maichel
NAYS: Baetsch, Sagsveen, Sand

PASSED

Chairman Maichel recessed for a ten-minute break.

Chairman Maichel indicated the next agenda item for consideration would be Item IV-D.

DEFERRED COMP:

Nationwide:

Mr. Tom Jones and Ms. Elizabeth Black, from Nationwide, addressed the Board. Nationwide is a current provider under the 457 plan. Mr. Jones noted that Nationwide had received correspondence from PERS and Mr. Miller relating to transfers not made within the established contractual timeframes. He expressed his concern regarding these events and reviewed activities currently taking place at Nationwide to ensure these situations do not occur in the future. He further conveyed that Nationwide intends to pay the penalties incurred as a result of these delays.

Mr. Collins noted the Board's options at this time were: 1) to continue to monitor the situation or 2) to begin a suspension process. Discussion followed. It was the consensus of the Board not to implement further sanctions against Nationwide.

Companion Plan Website:

The Board had requested that Valic investigate the possibility of adding transaction history to the website for the Companion Plan. Valic indicated this feature is now available on the website to members of the Companion Plan. This item was informational only and required no action by the Board.

Ms. Sand noted in the past an employee's pay stub contained information relating to the employee's cumulative contribution to the Defer Comp program. She felt this information was valuable and asked that staff take steps to determine whether it would be possible to have this information again provided on the pay stub. Staff will review this with OMB to determine whether it can be accommodated.

GROUP HEALTH INSURANCE:

BCBS Renewal (continued):

Chairman Maichel noted that the Board had heard from both the consultant and BCBS regarding the renewal process, and inquired how the Board would like to proceed on this issue.

MR. GUNKEL MOVED APPROVAL TO GO INTO EXECUTIVE SESSION FOR THE PURPOSE OF DISCUSSING CONTRACT NEGOTIATIONS PURSUANT TO NORTH DAKOTA CENTURY CODE 44-01-19.1(7). MS. SAND SECONDED THE MOTION.

AYES: Baetsch, Gunkel, Leingang, Sage, Sagsveen, Sand, Chairman Maichel

NAYS: None

PASSED

Chairman Maichel requested that members of the public who were attending the meeting, leave the room. The executive session was called to order at 10:30 a.m. The following individuals were in attendance: Chairman Maichel, Weldee Baetsch, David Gunkel, Ron Leingang, Howard Sage, Murray Sagsveen, Rosey Sand, Mr. Collins, Mr. Pechacek, Mr. Miller, Ms. Allen, Mr. Reinhardt and Ms. Welder. Discussion related to potential contract negotiations with BCBS. The executive session was adjourned at 12:13 p.m.

Chairman Maichel inquired if the Board wished to take any action regarding this agenda item.

MS. SAND MOVED APPROVAL THAT THE EXECUTIVE DIRECTOR BE AUTHORIZED TO NEGOTIATE WITH BCBSND IN ACCORDANCE WITH DISCUSSIONS HELD IN CLOSED SESSION. MR. GUNKEL SECONDED THE MOTION.

AYES: Baetsch, Gunkel, Leingang, Sage, Sand, Chairman Maichel

NAYS: Sagsveen

ABSENT: Sage

PASSED

Chairman Maichel recessed for a 30-minute lunch break.

GROUP INSURANCE:

Life Insurance Renewal:

ReliaStar was unable to forward the information to PERS at this time, therefore, Mr. Collins requested that this issue be deferred to the September 7 meeting. By general consensus, the Board concurred to defer this issue as requested.

EPO Report:

The EPO annual enrollment was held from April 17 through May 5, 2000. Ms. Allen noted that attendance at these meetings generally continues to decline. The enrollment period resulted in a 6% overall increase in EPO contracts, which now make up approximately 37.6% of all PERS active contracts. This item was informational only and required no action by the Board.

Health Plan Benefits:

Included with the board materials was an article relating to a recent lawsuit filed that suggests not providing coverage for birth control pills might be discriminatory. Mr. Collins conveyed that a previous analysis of the cost of providing this coverage showed it would equate to an increase of approximately \$6 per contract. This item was informational only and required no action by the Board.

Continuation of Health Coverage:

Ms. Allen explained that a question arose relating to interpretation of North Dakota Administrative Code (N.D.A.C.) § 71-03-03-05(1)(f). A retired member recently inquired whether the conclusion of her COBRA period would be a qualifying event in which she could add her spouse to her contract with PERS. Ms. Allen noted that in the past staff has interpreted this section to relate to employer-sponsored insurance; which would be insurance offered through an employer other than the State of North Dakota. Based on this interpretation, termination of COBRA continuation would not be a qualifying event. After further review of this section, staff determined that the term employer-sponsored plan is very general and lacks definition. Therefore, Mr. Miller was asked to review this issue also. He also concluded that this section excludes termination of COBRA continuation under the PERS plan as a qualifying event that would allow the retiree to add the retiree's spouse to her contract. Staff recommended this section of the N.D.A.C. be amended for clarification purposes. Discussion followed.

MR. LEINGANG MOVED APPROVAL OF THE STAFF RECOMMENDATION. MR. GUNKEL SECONDED THE MOTION.

AYES: Baetsch, Gunkel, Leingang, Sage, Sagsveen, Chairman Maichel

NAYS: None

ABSENT: Sand

PASSED

ReliaStar/AEtna Letter:

Included with the board materials was a letter from AEtna advising members that their financial services group was sold to ING Group. Mr. Collins noted that at a previous meeting ReliaStar had announced that it had also been sold to the ING Group. This item was informational only and required no action by the Board.

Plan Performance Update:

The July surplus projection and affordability analysis for the group medical plan was included with the board materials. This item was informational only and required no action by the Board.

RETIREMENT**Prior Service Credit for DC Plan:**

Ms. Knudsen explained that the new rules recently promulgated for the Defined Contribution (DC) plan provides that members, who elected to transfer into the DC plan and subsequently determined they were eligible for prior service credit, will not have that service recognized for benefit calculation purposes. However, §71-06-01-08 of the N.D.A.C. provides that members of the DC plan will vest in the retiree health credit program in the same manner as members of the retirement program to which they would have belonged if they had not elected to participate in the DC plan. This results in a programming problem since the system uses service credit information as the basis for calculating both the member's retiree health credit and service credit. Under the current rule, prior service credit would be used to determine one calculation, but not the other. Staff inquired whether the Board wished to change the rule so these credits would be calculated in the same manner for both benefits. Discussion followed on whether this issue required a rule change or a programming change. Staff noted that implementing this program change would be costly. The Board directed staff to review the issue further and bring a recommendation back to the Board at the September 28 meeting.

FICA:

At the last board meeting, staff was directed to work jointly with legal counsel to develop a list of options the Board could consider, should the Fargo School District decide to settle this issue with the IRS. Mr. Miller provided an update of activities that had taken place since the previous meeting. It has now been determined that the situation is a result of a field service directive rather than a letter-ruling project at the national level. Under a field directive, auditors would advise entities to stop using the methodology that was noncompliant. However, apparently they would not be asked to repay back taxes. Mr. Miller conveyed that this project has now been indefinitely shelved pending a review by their Chief Counsel for the IRS. He further noted that Ms. Calhoun is in the process of seeking whom the contact is regarding the pending review so that background information can be sent to this individual. This item was informational only and required no action by the Board.

Highway Patrol Indexing:

Pursuant to North Dakota Century Code § 39-03.1-11(5), the NDPERS Board sets the rate to be used in conjunction with establishing the annual index factor for deferred members of the Highway Patrol. Staff held discussions with representatives of the Highway Patrol system, who recommended using a 2% factor.

MR. LEINGANG MOVED APPROVAL TO USE A 2% INDEX FACTOR FOR THE FISCAL YEAR 2000 FOR DEFERRED MEMBERS OF THE HIGHWAY PATROL. MS. SAND SECONDED THE MOTION.

AYES: Baetsch, Gunkel, Leingang, Sage, Sagsveen, Sand, Chairman Maichel
NAYS: None

PASSED

Credited PEP Contributions:

Mr. Collins reviewed administrative procedures established for handling atypical monthly salary payments from participating employers. These procedures were established in an effort to avoid potential pension spiking. When an atypical salary payment is received, the salary is prorated back to the month in which it was earned. With the implementation of the PEP program, however, a similar issue arises relating to determining a member's match amount. Mr. Miller was asked to review this situation and concluded that the PEP credit should not be prorated, but should be fully credited in the month in which the atypical salary payment is received. However, he noted the Administrative Code is not clear enough to dictate this finding, therefore, if the Board interpreted the applicable provisions differently, their interpretation would have deference. Staff recommended the PEP credit be calculated based on the month in which the payment was received, rather than prorating and normalizing the payment. Discussion followed.

MR. GUNKEL MOVED APPROVAL OF THE STAFF RECOMMENDATION. MR. SAGSVEEN SECONDED THE MOTION.

AYES: Baetsch, Gunkel, Leingang, Sage, Sagsveen, Sand, Chairman Maichel

NAYS: None

PASSED

QDRO:

Mr. Miller noted this issue could potentially result in a lawsuit being filed against PERS.

MR. GUNKEL MOVED APPROVAL TO GO INTO EXECUTIVE SESSION FOR THE PURPOSE OF DISCUSSING POTENTIAL LITIGATION WITH LEGAL COUNSEL, PURSUANT TO NORTH DAKOTA CENTURY CODE 44-01-19.1(7). MR. LEINGANG SECONDED THE MOTION.

AYES: Baetsch, Gunkel, Leingang, Sage, Sagsveen, Sand, Chairman Maichel

NAYS: None

PASSED

Mr. Sagsveen left the meeting. Chairman Maichel requested that members of the public who were attending the meeting, leave the room. The executive session was called to order at approximately 1:30 p.m. In attendance were Chairman Maichel, Weldee Baetsch, David Gunkel, Ron Leingang, Howard Sage, Rosey Sand, Mr. Collins, Mr. Miller, Ms. Knudsen, Ms. Allen, and Ms. Welder. The executive session was adjourned at approximately 1:50 p.m.

Chairman Maichel reconvened the meeting in open session at approximately 1:52 p.m. He inquired whether the Board wished to take action on this agenda item.

MS. SAND MOVED APPROVAL TO NOT ACCEPT THIS AS A QUALIFIED DOMESTIC RELATIONS ORDER AND THAT THE BOARD SEND A LETTER PREPARED BY LEGAL COUNSEL. MR. SAGE SECONDED THE MOTION.

AYES: Baetsch, Gunkel, Leingang, Sage, Sand, Chairman Maichel

NAYS: None

ABSENT: Sagsveen

PASSED

MISCELLANEOUS

Legislation:

Included with the board materials were first drafts of the actuarial technical comments relating to proposed legislation. These comments are preliminary and additional information is being processed for inclusion in those comments. This item was informational only and required no action by the Board.

Next Meeting:

The Board agreed to meet on September 7 to review health renewal issues, and again on September 28 for the regular board meeting.

Board Travel:

Mr. Collins conveyed that Ms. Knudsen has been invited to give a presentation at a public fund summit sponsored by the Opal Financial Group. The sponsor has agreed to pay for Ms. Knudsen's roundtrip airfare in return for her participation in the summit. The Board was asked to approve this travel.

MR. SAGE MOVED APPROVAL OF THE REQUESTED TRAVEL. MS. SAND SECONDED THE MOTION.

AYES: Baetsch, Gunkel, Leingang, Sage, Sand, Chairman Maichel

NAYS: None

ABSENT: Sagsveen

PASSED

Mr. Baetsch indicated he would like to attend the Vanguard Client Conference in October of this year, and requested approval to do so.

MR. GUNKEL MOVED APPROVAL OF THE REQUESTED TRAVEL FOR MR. BAETSCH. MR. SAGE SECONDED THE MOTION.

AYES: Baetsch, Gunkel, Leingang, Sage, Sand, Chairman Maichel

NAYS: None

ABSENT: Sagsveen

PASSED

Chairman Maichel called for any other business or comments to come before the Board. Hearing none, the meeting was adjourned at approximately 2:40 p.m.

Respectfully submitted,

Jeanne Welder
Secretary, NDPERS Board